

**QUALITY MANAGEMENT
VERSUS
RISK FINANCE IN SHIPPING**

**Erika – Eureka – EurOPA
Will Quality Shipping Ever Be Truly Rewarded?**

By
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Good morning Ladies and Gentlemen,

It is a pleasure to be addressing you this morning and I hope the issues that I will be discussing with you will constructively contribute to this very exciting conference.

Back in May last year my friend Tor C. Mathiesen, then senior Vice President of Det Norske Veritas, asked me if I could take some time to address the June 1999 Mare Forum Conference in Amsterdam. A conference where leading shipping industry representatives would discuss with their counterparts from the Maritime Authorities of the European Union, ways to provide incentives for quality shipping operators.

My paper would address issues of transparency in shipping. He said: “Gregory I know you have no problem with that – you and Eletson have always been open with the public. We will address issues on information to be released to Port Authorities, the legal implications in connection with this, issues regarding vetting of ships, inspections by oil companies, data available to the Classification Societies, etc.”

It is true that at Eletson we go a long way when it comes to providing information on how we conduct our business and preaching for quality in shipping has been for me, the story of my life. As for transparency, Eletson is on record for many years now stating that the

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best transparency in our line of business, at least as far as maritime safety is concerned, is not the voluntary one but the one that is regulated by an environment where transparency is enforced in such a manner that you have no option but to comply.

This was an opportunity not to be missed. At the time it was apparent that a sentiment was developing in Europe, where companies like Eletson would be recognized and rewarded for their quality systems and their business approach. I was thus honored that MARE FORUM selected me to address this very topical and important issue on MARITIME TRANSPARENCY.

My response was immediate. I said to Tor Mathiesen: “Definitely, let us give them something to remember! We have absolutely nothing to hide, we are not afraid of any consequence as a result of providing this sort of information. Regarding transparency of ownership, we have no problem; we are almost a public company”

I said to Tor: “I will perform the undressing act” and this is how the title of my last year’s paper came about.

TRANSPARENCY, A MARITIME STRIPTEASE A SHIPOWNER’S PERSPECTIVE

Unfortunately, I had to opt out at the last minute as very pressing commercial matters made it impossible for me to attend. For depriving the Organisers and those of you who attended the Mare Forum 1999 Conference the pleasure of seeing me going through the STRIPTEASE PROCESS, I sincerely apologize, - but for all the show you missed last year, I promise you a far better one today – one that will give you superior value for your money.

On account of the events that have taken place since December 1999 you will be given the opportunity to enjoy a continuous, shall we say group striptease, which will be around for many years to come. It will involve, not only the shipowners / operators like myself

and other colleagues in this room but all the industry participants including the Classification Societies, Flag and Port States, Port Authorities, Terminal Operators, Suppliers, Insurance Underwriters, P&I Clubs, Charterers, Cargo Owners, Financiers, the IMO and Governments. Without exception all the important links in the maritime chain.

On Sunday December 12th 1999, the twenty-five year old, Maltese registered single hull oil tanker Erika, chartered by TotalFina, broke in two, some 40 nautical miles off the Southern tip of Brittany. More than 10,000 tons of the 30,000 tons of fuel oil she was carrying were spilt. About 400 km of coastline was polluted by the oil, causing serious damage to fauna, flora, fisheries and tourism as well as potential public health consequences. The incident caused havoc, a public outcry and having occurred only a few weeks after two disastrous storms, which ransacked that part of the world, it brought the wrath of the French people in a way we have not seen before. Since then, everyone, no matter how involved with the oil transportation industry he might be, has not stopped talking about it.

The breaking in two of the m/t Erika, definitely is not the first of its kind and in spite of the traumatic effect it caused, it is small as far as the spilled oil is concerned, compared to other far more serious maritime accidents. It so happens that the position where the Erika sank is in the center of a circle about five hundred and fifty nautical miles in radius where over a period of thirty three years, *we* have lived to witness accidents of the like of Torey Canyon in 1967, the Urquiola 1976, the Amoco Cadiz 1978, the Betelgeuse 1979, the Haven 1991, the Aegean Sea 1992, the Braer 1993 and the Sea Empress 1996.

It is interesting to note that the total amount of oil, which was spilt as a result of the above accidents, exceeds one million (1,000,000) tons. That is one hundred (100) times more than the oil spilled from the Erika. Still, the sound of the Erika alarm bells will reverberate for many years to come and I believe will bring some good to our ailing industry. As a result of the increased awareness, the public opinion has become extremely sensitive to issues of quality regarding the marine environment and it is not surprising that the European Commission, has finally decided to focus their attention on

the maritime industry and its safety record. I read in Lloyd's List the other day that President Jacques Chirac of France, Prime Minister Tony Blair of Britain and other heads of State, will include matters of maritime safety in their agenda during the Biarritz summit next month (October 13th). I am sure that this is the first time Heads of State are to debate issues of this nature.

The Erika is not just another maritime accident, although initially all of us including the maritime press referred to it as such. The Erika is a maritime disaster. It is a scandal and is also a disgrace to the maritime industry. I can only hope that the world will not have to witness such a tragedy again. I believe that the concerned efforts which are being spearheaded by the member states of the European Union will enable us, the professional providers of maritime transport service, to look forward to a safer, more transparent industry with rewards commensurate with the risks we take.

The BBC documentary on the Erika scandal, aired throughout the world on August 12th brought the state of our industry to the forefront of the general public. The reporting was very accurate in its portrayal of our industry's sorry state of affairs and even though Intertanko suggests that 99.9986% of all cargoes arrive safely at their destination, it takes an accident like the Erika to start the finger pointing process as to who is to blame.

In the meantime, in the eyes of the general public, we appear as an industry in disarray completely immature compared to the responsibilities that we have chosen to accept. As my old friend Paul Slater said last week in London, it takes one bad apple to rot a barrel, one tanker oil spill to taint the entire industry.

The Erika was the last straw, which broke the camel's back. Or if you will, the Erika has forced the European Commission as a result of severe public pressure, to get off their behinds and do something about this situation. To take action, hopefully together with the IMO, or alone if they have to, but they definitely must do something for goodness sake.

As a result of the 1999 Mare Forum conference in Amsterdam, a European Commission Maritime Industry Charter on quality was agreed and signed by leading shipping industry representatives. It was meant to turn up the heat on substandard shipping. To include those who actually operate such ships as well as those who help them remain in business, including as I mentioned earlier, registers, classification societies, flag states, charterers, lawyers, accountants, financiers, ship suppliers, you name them.

One of the principles of the Charter reads as follows:

“Industry participants should take reasonable care to ensure that the ships with which they are dealing with are of a good standard of quality. Accordingly, they should avoid using, servicing, supplying or otherwise doing business with ships, which clearly do not meet the internationally applicable requirements.

As I said, the charter was signed by no less than 17 representatives of the international maritime community and related industries, however, a powerful group of bodies held off, citing doubts about the charter’s political and legal implications. One of them, the Oil Companies International Marine Forum, OCIMF, through its director John Hughes, said: “the Organisation had ‘lingering legal concerns’ in respect to the charter. We are an international organization and we have to be very careful about how we review the charter. I think it’s a question of watching this space. We will sign it but not today”.

The ERIKA sank on December 12th 1999. The charterer, the major oil company TotalFina of France, is a very prominent member of OCIMF.

European Union Head of Maritime Safety Willem de Ruiters, told the International Union of Marine Insurance conference in London a few days ago that nine months after this oil spill there has yet to be a single new measure put into effect.

Mr. de Ruiter also stated: “We had hoped, and still hope, that the oil companies would come forward and agree at least in the area of heavy fuel oils and would commit themselves to charter only really good quality tankers”

The International Tanker Owners Pollution Federation Chairman, Helge Schmidt, in his remarks prefacing his Organization’s 2000 Review, draws attention to five cases of catastrophic hull failures that have occurred since 1992, which have involved tankers breaking in two. They have all involved tankers carrying heavy oil as cargo, and four of the five vessels were more than 24 years old. “Perhaps greater attention should be given to the safe transport of this environmentally unfriendly product,” he suggests.

He further says: “if we want chemicals and gasses to be carried in very sophisticated vessels, it seems perfectly reasonable to require fuel oil to be carried in the very best ships that can be obtained in the market place.”

As an example of how I see some maritime administrations reacting to similar instances, allow me to momentarily take you half way around the world and ask you to look at what happened there three and a half years ago when, on January 2, 1997, the twenty seven year old Russian tanker NAKHODKA, one of the five tankers Mr. Schmidt referred to in the ITOPF review, with a cargo of about 20,000 tons of heavy fuel oil – on the way from China to Petropavlosk – broke up in heavy weather and sank in the Sea of Japan off the OKI islands. The incident resulted in an estimated 6,500 tons of oil escaping into the sea, most of which reached the coast of Japan, severely damaging the environment and the local fishing trade.

I am not aware of any demonstrations that took place in Tokyo in front of the Russian embassy by angry fishermen or Japanese environmentalists. What I know is that the inquiry which was ordered by the Japanese maritime authorities found that the cause of this disaster was poor hull maintenance, old age which had resulted in the hull being severely wasted. Due to this event the P&I Club, which insured the Russian tanker for

this type of risks 'booked' a 200 million dollar plus (+) claim in its records, which as you know does not bode well for its mutual members.

I also know Japan proposed to the IMO to bring forward the dates for phasing out single hull tankers and most recently Japan has remarked upon the similarity between the NAKHODKA and ERIKA incidents!! Three and a half years after the worst maritime disaster in the Sea of Japan the maritime world is still waiting for some action.

Coming back to Europe and our neighboring waters, the Erika disaster has caused a completely different reaction by the authorities of Europe, which we are all witnessing.

When you have disasters like the Erika, like the Exxon Valdez, the government administrations, the leaders of the maritime industry take action. Action is what we need. We have had enough of debates, conferences and inquiries.

As a result of the Erika disaster, the Commission of the European Union, following unbearable pressure from the general public, communicated to the European Parliament and the Council, a document dated March 15th 2000 on the safety of the sea borne oil trade. The document, a preamble of what I think will eventually become the European Oil Pollution Act, EurOPA, contains in a package short and medium term regulatory measures. These are:

- To ban from all ports of the European Union ships older than fifteen years that have been detained more than twice in the course of the two preceding years, on the basis of a "black list."
- A stricter monitoring of the classification societies to which Member States delegate power to inspect the quality of ships.
- A ban on single hull oil tankers according to a timetable similar to that applied by the U.S. Pollution Act.

Further

- Systematic exchanges of information between all the actors in the maritime community by further developing the EQUASIS system in particular.
- Improved surveillance of navigation, particularly in those areas where oil tanker traffic is most dense.
- The possible establishment of a European structure for maritime safety,

and finally

- Development of the liability of the various players in the seaborne oil trade.

The next IMO Marine Environment Protection Committee meeting in London on October 2nd, will provide an ideal venue for the European Transport Ministers to air these measures and hopefully reach an acceptable understanding by all on how to go about implementing new regulations.

It is not my intention to ventilate these issues any more than they have already been by the politicians, maritime authorities, maritime organizations, or the media. I believe that enough material exists so that any interested party may be able to form an educated opinion.

I would like, however, to discuss one of the proposed measures of the Commission, which is receiving considerable public attention, of late. A number of industry representatives have criticized double hull vessels in light of the stance taken by Europe's politicians. By taking a few minutes of your time and before addressing the issue of rewards in shipping, I would like to expand on my own personal and my company's experience with double hull ships.

Eletson took a strategic decision 15 years ago to adopt the double hull configuration and has since ordered 28 double hull product tankers. Presently our fleet of 22 vessels, 1.5 million tons dead weight, is one of the youngest in the industry and the largest uniform fleet of such tankers.

Our 15 years of experience in building, operating and maintaining this type of oil tanker, has made us believe that they are considerably safer, more environment friendly and in the long term far more economical than their predecessors; the single hull ships.

At Eletson we do not care whether Europe's politicians bring forward the phase out of single hull tankers or not. But what we do care about is that because some people want to delay the inevitable, they have started criticising the double hull configuration per se.

Over the years, we have come to appreciate the additional safety offered by the double hull whilst dealing with the permanent ballast spaces and their peculiarities. The fact that today people are still arguing over whether it is worthwhile to own and operate such ships, is a mystery to me. Rather than getting behind the ball and putting their money where their mouth is, industry associations and individuals are trying with their stalling tactics to delay the inevitable.

Ladies and gentlemen, let's face the reality, in a few years the entire world tanker fleet will be double hull or something better, whether we owners like it or not. It is going to happen so we had better wake up and smell the coffee!

What I would like to stress before moving on, is that double hull tankers are only a part of the modern present day operation in a forward looking tanker company. The picture also involves qualified officers and crews, dedicated shore staff, continuous training, information technology and a committed transparent management team.

These aspects of modern shipping sometime escape people's attention who tend to focus only on one aspect instead of considering a more global perspective. It should be noted and it has been said many times in the past, that a good ship with a poor crew is a disaster waiting to happen.

To the politicians and regulators in this room; I would like you to consider the points that I have just mentioned, as being equally important in the ongoing quality shipping debate along with the issue of double hulls.

I will now endeavor to give you my version of how quality shipping might one day be rewarded consistently and through the infamous shipping cycles.

Rewarding a quality shipping operation has been discussed at many of the events I have found myself over the years. Everyone has his own opinion as to whether this will eventually happen and to what degree. However we all agree that the parameters for such a drastic change are many and quite complex, with most of them being completely outside the sphere of influence of the owner / operator.

As you all know, the shipping industry has a multitude of complex regulations and rules, which much to the disappointment of the few quality operators are not adequately enforced. This lack of enforcement, or lack of policing of the governing rules and regulations, has created an environment where substandard shipping has grown and festered to the detriment of society at large. Our most recent European casualty, the tanker Erika, is a prime example. Unless the government bodies, the countries themselves, the independent organizations that are mandated to control and check the ship owners of the world; unless they all do their job correctly, quality shipping will never be in a position to be properly rewarded.

Immediately after the proper policing comes the critical issue of transparency. Most of today's shipping incidents involve vessels for which the owners cannot be immediately identified. As we all know the issue of the corporate veil is no longer as strong as it used to be. Many courts around the world have challenged the status quo to the chagrin of fleeing con artists. Whether shipping will have to truly reveal itself and become transparent by force or due to equity or public debt market considerations, is unknown. I can assure you though that the sooner we face the world as we truly are and stop hiding behind a brass plate on the wall, the sooner we shall be respected and eventually compensated for our risks and hard work.

Another inevitable force that is changing our industry and giving us hope for better rewards in the future is that of consolidation. The days of opportunist, fly by night shipping operations are slowly coming to an end as the charterers, the major oil companies become fewer and fewer. As our customers consolidate, we will also have to adapt and grow in order to meet the increased demands and financial pressures being applied to the service that we provide.

As the customers of tanker shipping become more responsible themselves and as their criteria become even more stringent, the possibility for us as service providers to make a decent return on our investment increases. The day when the oil trading desk is no longer taking billion dollar risks like that witnessed last December and when a quality conscious shipping policy is in effect at all the major oil companies which control virtually all the loading and discharging locations around the world; on that day, we stand a better chance to be truly rewarded.

Last but not least I shall mention the attitude of the general public. For years tanker shipping was an invisible part of the logistics chain in the movement of oil. Only recently has society recognized that tanker shipping exists, that the world cannot do without it, whilst at the same time forming a largely negative opinion of our industry.

In order for us to be truly rewarded, this last critical element will have to be addressed with careful thought and a lot of respect. We only have one earth, which is covered 70 percent by water and 30 percent by land, on which six billion people live in an environment that is getting worse every day.

As tanker owners we must appreciate the public sentiment and understand that our role in society and industry carries a very heavy burden. It is our responsibility to educate the public, to assist them in understanding what we do and to prove to them through continuous effort that we deserve much better.

Before I step down let me share with you a story. It's practical application might help us to resolve our predicament.

We all know the famous exclamation EUREKA of the Greek mathematician Archimedes, when he found out how to determine by specific gravity the proportion of base metal in King Hieros' golden crown. The exclamation has been in use for the past two and a half thousand years with reference to any discovery of significance. EUREKA – Greek for “I found it”

One of the most important concerns that Archimedes had to go through in his effort to determine the proportion of the base metal was to avoid melting down the crown.

Mr. Chairman, ladies and gentlemen,

I hope before the end of this conference and during the next few months in discussions in both Brussels and London, we will all be able to find out and put into use the right proportion of ‘basic common sense’ so that we can escape the ignorance, confusion and indifference which has marked our industry for so many years. Finding out the right proportion of common sense means that we do not necessarily have to cause havoc and disrupt supplies of oil to Europe or to any other location in the world. I am of the opinion that enough quality tankers exist today or can be built in a timely fashion to take care of all the requirements that our world has, thus avoiding a ‘meltdown’.

I hope that you have found my views sincere, maybe thought provoking and hopefully with some ideas which might help us all make this a better industry.

Thank you!